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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 1/25/06  
**LAST UPDATED** 2/12/06     **HB** \_\_\_\_\_

**SPONSOR** Feldman

**SHORT TITLE** Solar Market Development Income Tax Credit     **SB** 269/aSFC

**ANALYST** Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(352.3)	(655.5)	(1,234.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates HB 295

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		30.0	30.0	60.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

Energy Minerals and Natural Resources Department (EMNRD)

US Department of Energy, Energy Information Agency (EIA)

#### Responses Received From

Taxation and Revenue Department (TRD)

Energy Minerals and Natural Resources Department (EMNRD)

### SUMMARY

#### Synopsis of Amendment

The Senate Finance Committee amended Senate Bill 269 to limit the total of the state credit and the federal credit for the installation of solar thermal or photovoltaic systems to 30 percent of the cost of the system. The calculation for the credit with the amendment is 30 percent of the cost of purchasing and installing a qualified system less federal credits. This amendment does not change the fiscal impact.

### Synopsis of Original Bill

Senate Bill 269 amends the Income Tax Act by adding a new credit against personal income tax liability for the purchase and installation of a solar thermal or photovoltaic system in a residence, business or agricultural enterprise. The credit is equal to 30 percent of the cost of the system less applicable federal tax credits up to a maximum of \$9,000 and can be carried forward for a maximum of 10 years. The bill also includes an emergency clause to make it effect immediately upon becoming law. Also included is a sunset date of 2015 on an eligible purchase. The total amount of credits available is \$5 million: \$2 million for solar thermal systems and \$3 million for photovoltaic systems.

### **FISCAL IMPLICATIONS**

In FY06, the amount claimed against income taxes is estimated to be \$352 thousand, with \$180 thousand for photovoltaics and \$172 thousand for solar thermal. In FY07, the amount claimed will almost double in size as more people take advantage of the credit and the industry matures. The FY07 reduction in revenues will be \$655 thousand and go over \$1 million by FY08 where it will cost \$1.2 million.

It is assumed that all of the credits will be used since there has been an extraordinary degree of interest in developing renewable sources and the combination of this credit and the federal credit of \$2,000 makes the purchase and installation much more affordable. EMNRD has indicated that the credit will grow in usage until it is completely used in FY14 based on industry trends.

Additional budget impacts include ½ FTE for TRD to coordinate with EMNRD on the credit process. This is estimated to cost \$30 thousand based on the FTE cost of a typical TRD employee.

### **SIGNIFICANT ISSUES**

A photovoltaic system is an energy system that collects or absorbs sunlight for conversion into electricity.

A solar thermal system is an energy system that collects or absorbs sunlight for conversion into heat for the purposes of space heating, space cooling, or water heating.

SB 269 is only applicable to the personal income tax and not the corporate income tax which may limit its usefulness to some businesses.

#### **EMNRD:**

A federal solar tax credit is in place, offering a 30% tax credit on a solar system's capital cost, up to \$2,000. It is available during the January 2006 to December 2007 timeframe. This incentive is attractive only for purchasing small solar domestic hot water systems in the \$6,000-\$8,000 capital cost range. It does not greatly affect decisions for purchasing photovoltaic or large solar thermal systems. In addition, it is only available, at this time, for two tax years.

Several solar system types are not allowed to receive tax credits, as proposed by SB 269 (see

page 2, Section B). Solar swimming pool heating systems are generally cost-effective under current economic conditions. Hot tubs are luxury items, as opposed to conventional water and space heating needs of homes and small businesses that the state should support through tax credits. Commercial and industrial photovoltaic systems that are distant from any electric utility service are generally cost-effective under current economic conditions.

### **PERFORMANCE IMPLICATIONS**

EMNRD reports that the ten year duration of the credit is necessary to allow the industry, still in its infancy, to grow. With the increased demand for solar products, there will be increased need for technicians and installers. EMNRD suggests that a training program should be set up to make sure New Mexicans are trained for these jobs.

### **ADMINISTRATIVE IMPLICATIONS**

TRD: The proposal would impose moderate additional administrative costs on the Department for the development of new forms and coordination with EMNRD. The Department will be required to monitor that aggregate credit claims for each system does not exceed caps. A manual process for this credit will require 1/2 FTE to monitor, approve and track the tax credit. The ten-year carry-forward period would require a significant amount of record keeping on the Department's (and the taxpayers') part. This provision would be cheaper to administer if the carry-forward period were limited to five years.

Using an estimate for a tax auditor, ½ FTE is estimated to have an appropriation impact for TRD of \$30 thousand.

EMNRD:

EMNRD would administer rules and a quality assurance program in order to maintain a high level of system performance and to certify to the Taxation and Revenue Department (TRD) the taxpayers that are eligible for tax credits. Upon enactment of SB 269, the immediate need would be for EMNRD to establish solar tax credit program rules by July 1, 2006 through a public process. The rules would provide instructions on an application process for EMNRD's certification. EMNRD would then manage the application process for the duration of the solar tax credit program, for two reasons: 1) to establish a means of not exceeding the tax credit cap limits and 2) to certify taxpayers to TRD. EMNRD would provide an annual certification report to TRD in the early part of each calendar year.

### **CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

SB269 is a duplicate of HB 295.

### **TECHNICAL ISSUES**

TRD: The "Department" is not defined.

The procedures for applying for and claiming the credit could be clarified. For example, it is not clear over what time period the "maximum annual aggregate" amount of credit is to be calculated. This provision would be easier to administer if the calculation were specified to be "total credits approved by the Department during one calendar year may not exceed".

There is little guidance regarding when the taxpayer may apply for the credit or if there is a statute of limitation for applying for the credit. For example: it appears that we may allow up to \$5 million total in 2018, but the credit may be based on equipment installed between January 1, 2006, and December 31, 2015.

**OTHER SUBSTANTIVE ISSUES**

EMNRD: While the above projections only address revenue impact to the General Fund, it should be noted that other taxation mechanisms within state and local governments will benefit from increased revenue flows. For example, the increased purchases of solar equipment and services, as well as expanded payrolls due to the additional employees needed by New Mexico's solar businesses would lead to increased taxes collected by state and local governments.

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